



March 15, 2002

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Mr. William F. Caton
Acting Secretary
Federal Communications Commission
445 Twelfth Street, S.W.; Room TW-A325
Washington D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: In the Matter of Applications for Consent to the Transfer of Control of Licenses
and Section 214 Authorizations from Ameritech Corporation, Transferor, To SBC
Communications Inc., Transferee, (CC Docket No. 98-141)

Dear Mr. Caton:

In accordance with Paragraph 65(c) of the SBC/Ameritech Merger Conditions, SBC
Communications Inc. (SBC) submits the attached "Annual Compliance Report" for the
Calendar Year 2001.

If you have any questions regarding this report please contact Michelle Thomas at (202)
326-8919 or me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Caryn D. Moir".

Attachment

Cc: Ms. Carol Matthey
Mr. Anthony Dale
Mr. Mark Stephens
Mr. Mark Stone

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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

**SBC/Ameritech Merger Conditions
2001 Compliance Report to the FCC**

Michael N. Gilliam
Vice President
FCC Corporate Compliance Officer
SBC Communications Inc.

March 15, 2002

Merger Compliance Report – March 15, 2002
SBC Communications Inc.

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Executive Summary

The SBC/Ameritech Merger Conditions (“Merger Conditions”) require SBC Communications Inc. (“SBC” or “Company”) to submit a report annually by March 15 addressing the Company’s compliance with the Merger Conditions for the preceding calendar year. The Report is to be prepared in a format substantially similar to the Independent Auditor’s audit report specified by the Conditions. This Executive Summary highlights SBC’s compliance efforts from January 1, 2001 through December 31, 2001, as detailed in the Compliance Report.

When the Federal Communications Commission (Commission) approved the SBC/Ameritech merger, it did so pursuant to the most far-reaching and costly set of Conditions in telecommunications industry history. These conditions – which include performance-measure reporting and voluntary payment provisions, out-of-region entry plans, 13 State Operations Support Systems (OSS), a structurally separate advanced services affiliate, and comprehensive monitoring and independent audit requirements – have been exceedingly complex in application and operation.

To meet the performance reporting provisions, for example, SBC has collected and produced, on a monthly basis for over two years, millions of data points tracking virtually every aspect of SBC’s wholesale performance. To implement the advanced services affiliate condition, SBC built a new corporation from the ground up, and transferred to that corporation an existing business serving thousands of customers. SBC literally had to determine which piece parts of hundreds of its systems were impacted, carve out those pieces dealing with advanced services, and at the same time keep its systems operational to meet the needs of its customers. SBC continued to deploy xDSL in low-income wire centers. To meet the 13 State OSS enhancements condition, SBC participated in collaborative sessions with hundreds of CLECs, worked proactively, and devoted untold resources to the successful implementation of the many OSS changes growing out of those sessions.

The Merger Conditions impose many other requirements, each of them complex and demanding in its own way. With each, SBC has devoted the financial and managerial resources necessary to meet the Commission’s requirements, and has carefully monitored its actions to ensure compliance. As this report makes clear, these efforts have been overwhelmingly successful.

The following provides an abbreviated high-level summary of the continued actions taken by SBC in 2001 to implement and maintain the Merger Conditions and achieve the following five policy goals established by the Merger Conditions.

1. Promoting equitable and efficient Advanced Services deployment

As required by the Merger Conditions, SBC provisioned Advanced Services from affiliates structurally separate from the SBC Incumbent Local Exchange Carriers.

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SBC met requirements regarding the phased-in development of enhancements to existing interfaces used by unaffiliated carriers for pre-ordering and ordering Advanced Services, and provided telecommunications carriers discounts pending deployment of these enhancements. While certain discounts were not provided timely, SBC applied appropriate credits retroactively and enhanced its controls in order to prevent additional errors. SBC provided unaffiliated carriers access to loop information, and offered interim loop conditioning rates. SBC continued to deploy xDSL Advanced Services in low-income urban and rural wire centers, achieving a total deployment into over 170 low-income urban and rural wire centers.

2. Ensuring open local markets

SBC is committed to providing the best wholesale service in the nation, and we are achieving that goal. SBC reported the 20 performance measurements outlined in the Merger Conditions on a monthly basis as required despite the enormous operational challenges of producing such a large volume of data in just 20 days after month's end. SBC did not charge flat-rate monthly fees for access to Operational Support Systems and held training forums in all regions of SBC to assist CLECs with OSS issues. SBC provided collocation consistent with the Commission's rules with the exception of isolated cases of untimely posting of notice of exhausted premises to the Internet and a few instances when the Company inadvertently responded to requests for collocation space after the required timeframe. SBC has since modified its policies regarding exhausted premises postings and reorganized collocation service operations into a consolidated service center. SBC offered to provide most-favored-nation ("MFN") interconnection agreements and multi-state interconnection/resale agreements. SBC also offered to provide an unbundled loop discount of 25% off the lowest applicable monthly price and increased resale discounts. While some discounts were not reflected on certain bills, SBC has taken corrective action where needed to provide future discounts correctly and has completed or is completing the issuance appropriate credits.

3. Fostering Out-Of-Region competition

SBC installed a local switch or otherwise obtained switching capability in 19 new out-of-territory markets and offered facilities-based local exchange service in those cities. In the three markets SBC initially entered in 2000, SBC expanded service offerings by collocating facilities in at least 10 wire centers in each of the three markets.

4. Improving residential phone service

SBC did not implement mandatory minimum monthly or flat-rate charges for InterLATA service to any in-region or out-of-region wireline residential customer. SBC filed tariffs for enhanced Lifeline plans in those states where the state commissions accepted SBC's offer to provide such service. SBC provided the most detailed service quality reporting information in the industry by reporting quarterly service quality measurements based on the National Association of Regulatory Utility Commissioners' Service Quality White Paper and providing the Federal

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Communications Commission with quarterly ARMIS data. SBC also continued to participate in the Network Reliability Interoperability Council.

5. Ensuring full compliance with all Conditions

The Independent Auditor completed, and SBC submitted to the FCC, the comprehensive audit engagement reports as required by the Merger Conditions.

SBC's annual compliance report is divided into two sections. The first section provides a summary of the actions being taken to help ensure overall compliance. The second section provides an update on each Merger Condition, and the format is substantially similar, in relevant respects, to the format of the independent auditor's section of the audit reports required by the Merger Conditions.

This report demonstrates not only SBC's compliance with the Merger Conditions, but also its ongoing commitment to meet the Commission's established goals. SBC remains committed to full compliance with the Merger Conditions.

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Introduction

On October 8, 1999,¹ the Federal Communications Commission (“FCC” or “Commission”) released its Report and Order (“Order”) in CC Docket No. 98-141, regarding the *Applications of Ameritech Corp., Transferor, and SBC Communications Inc., Transferee, for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, DF90, 95 and 101 of the Commission’s Rules* (“Merger Order”). Included in Appendix C of the Merger Order were Merger Conditions that affected the combined entities post-merger business operations of SBC Communications Inc. (“SBC” or “Company”) and Ameritech Corporation (“Ameritech”).² Pursuant to the Merger Conditions, Paragraph 65c requires that an annual compliance report be submitted no later than March 15 of the calendar year following the year covered by the report.

SBC provides this Annual Compliance Report for the Calendar Year 2001 (“Report Period”) in compliance with Paragraph 65c. The first section of the report provides a summary of the actions taken to help ensure overall compliance and includes a discussion of the efficiencies realized as a result of the merger. The second section describes the objectives and compliance activities associated with each of the Merger Conditions and is presented in a format substantially similar to the independent auditor’s report on compliance with the Merger Conditions. Attachment A to this report includes a discussion of the internal controls and training infrastructure that SBC utilizes to ensure ongoing compliance. This report is based on SBC’s ongoing review and assessment of compliance with the Merger Conditions as of the report filing date and is accurate to the best of Management’s knowledge and belief at the time that the report was filed.

SBC is committed to meeting all Merger Condition requirements and has dedicated the resources required to achieve and ensure compliance on an ongoing basis.

¹ October 8, 1999 is referred to as the Merger Close Date or “MCD” throughout this report.

² Note: throughout this document, the use of “SBC” or the “the Company” refers collectively to SBC Communications Inc., including Ameritech, the affiliates, and the operating companies of both companies, unless otherwise noted.

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I. Summary of Compliance Activities and Merger Efficiencies

1. Assignment of Compliance Responsibilities

1.1 Corporate Compliance Officer

On September 29, 2000, Cassandra Carr, Senior Executive Vice President-External Affairs, was appointed as Corporate Compliance Officer with the approval of the Board of Directors of SBC and Ms. Carr served as the Corporate Compliance Officer throughout 2001. On January 25, 2002, the Board of Directors designated Michael N. Gilliam, Vice President as the FCC Corporate Compliance Officer. During the period covered by this report, the FCC Corporate Compliance Officers' responsibilities included the following:

- Overseeing the implementation of the Merger Conditions;
- Monitoring SBC's compliance program and progress toward meeting all deadlines specified in the Merger Conditions; and,
- Providing periodic reports to the Commission regarding SBC's compliance as required by the Merger Conditions and consulting with the Commission on an ongoing basis regarding SBC's compliance with the Merger Conditions.

1.2 Merger Compliance Group

The Merger Compliance Group (MCG), as directed by the Corporate Compliance Officer, provided the Company with a framework for implementing and maintaining internal controls to ensure compliance with the Merger Conditions. The MCG maintained a compliance plan, which tracked each requirement of the Merger Conditions that required action on the Company's part and assigned responsibility to an officer of the Company, who as the team leader for that Condition, was personally responsible for ensuring full compliance with the Condition in the individual business units. The MCG monitored compliance with these requirements through monthly conference calls in which each responsible officer or delegate was required to report compliance status, both on a historical and prospective basis. The MCG also performed an oversight role to ensure designation of personnel responsible for training on the Merger Conditions across the Company. The Company also maintained a Merger Compliance oversight team comprised of legal counsel and regulatory staff to provide guidance regarding approval of operations or activities between the Advanced Services affiliates and the ILECs.

1.3 Audit Committee

The Audit Committee of SBC's Board of Directors met with the Corporate Compliance Officer periodically in 2001 to monitor SBC's progress in meeting the Merger Conditions.

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1.4 Executive Compliance Group

Responsibility for implementing and securing compliance with each Merger Condition was assigned to officers and senior managers in the affected business units. For each of the Merger Conditions, a corporate officer was designated as having primary responsibility for achieving and maintaining compliance. Taken collectively, these individuals and corporate officers comprise the “Executive Compliance Group.” In addition, Paul Mancini, Vice President & Assistant General Counsel, was designated as the SBC legal officer to provide legal advice and support to the Executive Compliance Group. A list of the responsible officers and their respective Merger Conditions is provided in Appendix 1 of this Compliance Report.

Responsibilities for the Officers in the Executive Compliance Group included the following:

- Reporting to the Corporate Compliance Officer and delegates on the status of compliance activities related to the specific Merger Conditions for which they are responsible;
- Notifying the Corporate Compliance Officer immediately of any issues, problems, or circumstances needing resolution in order for compliance activities to proceed on schedule;
- On request, certifying compliance with specific Merger Conditions and supplying documentation necessary to confirm such compliance; and,
- Ensuring compliance by their respective staffs with all records retention, document preservation, and document production requirements arising out of, or in connection with, the Merger Conditions.

1.5 Responsibilities of Business Units

Each business unit head, each organization within a business unit, and each work group was collectively responsible for maintaining its units, organizations, or work groups in full compliance with the Merger Conditions and promptly remedying any situations that might lead to non-compliance. Responsibilities included investigating to determine if any organization or work group failed to detect violations, preventing recurrences of any violations within a business unit, and disciplining, on a case-specific basis, the personnel responsible for any failure resulting in non-compliance.

2. Compliance Requirements and Timelines

2.1 Compliance Requirements and Timelines

In order to provide ongoing and consistent internal controls, a compliance timeline (Federal Communications Commission’s Public Notice, DA 99-2480, released November 8, 1999) was utilized as the basis for requirements. The Corporate Compliance Officer (or delegate) reviewed timelines and compliance requirements on a

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monthly basis in 2001 with the Executive Compliance Group, legal counsel, and the MCG.

2.2 Team and Business Unit Timelines

In order to provide additional controls, individual teams and Business Units have developed their own requirements and timelines as needed for project management purposes.

3. Audit and Documentation Requirements

3.1 Annual FCC Compliance Report

The Annual Compliance Report (“Report”) as submitted herein is required by Paragraph 65c of the Merger Conditions. This Report addresses SBC’s compliance with the Merger Conditions and documents the activities SBC has undertaken to ensure compliance. Each Business Unit has maintained sufficient documentation to enable the Corporate Compliance Officer to file this Report.

3.2 Independent Compliance Audit

On September 7, 1999, SBC engaged Ernst & Young LLP (“E&Y”) as the independent auditor to perform the examination and agreed-upon procedures engagements required by the Merger Conditions. The audit engagement included the 2001 report year. The Commission’s letter of August 24, 1999 to the Company indicated the Commission’s acceptance of the auditor.

4. Internal Controls and Training

The Company recognizes that implementation of an effective internal control structure is an essential element to ensure compliance with the Merger Conditions. Each member of the Executive Compliance Group was responsible for maintaining an effective internal control structure for his or her assigned Merger Conditions. Employee training has always been an integral component of the Company’s corporate culture, and the Company has an extensive training infrastructure. The Company leveraged this existing infrastructure to educate its very large work force on the obligations created by the Merger Conditions. Internal controls and training are summarized in Attachment A to this Report.

5. Merger Efficiencies

In 1999 and 2000, activities centered on implementing operational plans to integrate the functions and operations of the pre-merger SBC and Ameritech entities. Company teams focused on specific areas of the business to eliminate duplication, consolidate like work efforts across the entire new organization, and adopt best practices.

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During 2001, merger efficiencies continued to be realized from operational plans implemented in 2000 and prior. These efficiencies resulted primarily from elimination of duplicate functions, the consolidation of operations, the re-negotiation of contractual obligations, and the adoption of best practices. Elimination of duplication was accomplished through the consolidation of operations at SBC and Ameritech in many areas of the Company, including holding company operations and many other staff operations. Examples of holding company operations that were consolidated included Corporate Finance, Human Resources, Regulatory/External Affairs, Corporate Development, Corporate Strategy, and Corporate Communications. Examples of staff operations functions that were consolidated included functions in Marketing, Network, and Information Systems.

Also in 2001, additional operational plans to integrate pre-merger functions continued to be executed, such as complex application development and those plans that could not be implemented until pre-existing contractual obligations expired. The renegotiations of contractual obligations as well as implementing best practices in Fleet Operations, Real Estate, Network Services, Sales, Advertising, Marketing, Operator Services, Training, Procurement, and Information Systems produced additional savings. Due to the complexity of the underlying technologies and systems, product availability, and the expiration dates of contractual obligations that existed prior to the merger, the implementation of a few remaining projects will continue beyond 2001.

II. Discussion of Compliance by Merger Condition

Promoting Equitable and Efficient Advanced Services Deployment

1. Separate Affiliate For Advanced Services

Description and Objectives: Condition 1 requires SBC/Ameritech to provide Advanced Services (as defined in paragraph 2 of Condition 1) through one or more structurally separate affiliates. SBC Advanced Solutions, Inc. (“ASI”) was formed in 1999 prior to the MCD and continued to operate during 2001 in fulfillment of this commitment. Ameritech Advanced Data Services of Illinois, Inc., Ameritech Advanced Data Services of Indiana, Inc., Ameritech Advanced Data Services of Ohio, Inc., Ameritech Advanced Data Services of Michigan, Inc., and Ameritech Advanced Data Services of Wisconsin, Inc. (collectively referred to as “AADS”) provided Advanced Services as a structurally separate affiliate in the Ameritech states prior to the Merger and continued to do so in 2001. Collectively, ASI and AADS are referred to as the Advanced Services affiliates. This Condition also set forth a set of transitional rules for: (a) the migration of Advanced Services customers from the SBC Incumbent Local Exchange Carriers (“ILECs”) to the separate affiliate; (b) the provision of certain services by the ILECs to the separate affiliate; (c) the provision of interim line sharing; and, (d) the implementation of performance measurements.

As a result of the court’s ruling in *ASCENT v. FCC*, 235 F.3d 662 (D.C. Cir. 2001), the separate affiliate for advanced services requirements in the Merger Conditions, including the collocation-related and other requirements adopted in the *Second Memorandum and Order* in CC Docket 98-141, automatically sunset on January 9, 2002. *SBC/Ameritech Order*, 14 Rcd 11712, App. C, Para. 12c (providing that Second Memorandum and Order conditions sunset on date SBC is no longer required to provide advanced services through a separate affiliate). As of this Report date however, SBC continues to provide advanced services in the SBC/Ameritech Service Area through separate affiliates according to the requirements of this condition.

The following addresses SBC’s compliance, by Business Unit, with the requirements of this condition:

A. Advanced Services Affiliates

- SBC’s separate Advanced Services affiliates operated in accordance with the structural, transactional and non-discrimination requirements under 47 U.S.C. Section 272 (b), (c), (e), and (g) of the Telecommunications Act of 1996 pursuant to the transitional mechanisms and other permissions within the Merger Conditions. However, the Company noted the following exceptions during 2001.
 1. Six ASI work locations in ILEC-owned premises were not included in an affiliate agreement between ASI and the ILECs. The locations were added to the affiliate agreement and retroactive billing applied.

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2. A small portion of the Advanced Services equipment transferred from Southwestern Bell Telephone Company (“SWBT”) to ASI in 2000 during the grace period defined in paragraph 3.e of the Conditions, was inadvertently omitted from the Memorandum of Understanding documenting the transaction and as such, not initially recorded. However, journal entries and Memoranda of Understanding to retroactively record the transaction were executed for the three affected states in October 2001, January 2002, and February 2002, respectively. In addition, SWBT inadvertently did not record journal entries for a software application transferred to ASI during the grace period in 2000 and retroactive entries were recorded in 2001.
 3. In 2001, restated agreements were executed and true-up entries recorded regarding the number of customer accounts transferred from Nevada Bell, Pacific Bell, and SWBT to ASI in 2000. During 2002, the Company began a re-assessment of the transaction transferring customer accounts. This re-assessment, which was still in progress as of this Report date, could result in additional adjusting entries.
 4. Certain billings for services provided between the ILECs and the advanced services affiliates required adjustment with respect to quantities, rates, or cost determination.
 5. In a few instances, affiliate transactions or updates to existing affiliate agreements were posted to the Internet after the 10-day deadline.
 6. Data collected by the Company indicated that the SBC ILECs fulfilled most requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which the SBC ILECs provided such telephone exchange service and exchange access to themselves and their affiliates, although there were some instances in which the SBC ILECs did not do so.
- Substantial weight was given to the performance of the separate Advanced Services affiliates in setting the annual bonuses paid to officers and management employees of the separate Advanced Services affiliates.
- B. ILEC – Network Planning, Engineering, Design & Assignment; Creation and Maintenance of Advanced Services Customer Records; Para. 4(f) Ordering Functions
- The ILECs did not provide any prohibited network planning, engineering, design, and assignment services, as defined in para. 4(a)(1-4), (c), & (d) of the Merger Conditions, to the Advanced Services affiliates.
 - The ILECs did not create or maintain any records associated with the customer’s Advanced Services account, as defined in para. 4(e) of the Merger Conditions.
 - The ILECs did not perform any of the ordering functions defined in para. 4(f) of the Merger Conditions.
- C. ILEC – Network Services
- When required by the Merger Conditions, the Advanced Services affiliates utilized the same interfaces as unaffiliated providers of Advanced Services to order facilities

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and operations, installation, and maintenance services from the ILECs, and the ILECs provided these facilities and services on a non-discriminatory basis.

- During 2001, each SBC ILEC required to report Performance Measures, pursuant to Attachment A of the Merger Conditions, began reporting, or continued to report, Advanced Services affiliate results as the affiliate began operating in each state.
- As required under the Second Memorandum Opinion and Order in CC Docket 98-141, those SBC states obligated to report performance measures began providing results for broadband services beginning with February 2001 results reported on March 20, 2001. SBC was also required to make available and provide performance results on the combined voice and data product beginning with May 2001 activity reported on June 20, 2001.

D. ILEC – Joint Marketing

- ILEC employees accessed the ILECs' loop information through the same interfaces, OSS, processes, and procedures as made available to unaffiliated telecommunications carriers, when joint marketing with the Advanced Services affiliate.

E. ILEC – Industry Markets/Network Planning & Engineering

The Commission, in the *Second Memorandum Opinion and Order, In the Matter of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules, CC Docket No. 98-141*, released September 8, 2000 granted permission for SBC's incumbent LECs to own and operate certain advanced services equipment installed in remote terminals and in central offices, conditioned upon the terms specified in Appendix A to that Order.

The compliance activities performed in the year 2001, as required by Appendix A to the Second Memorandum and Order in CC Docket 98-141, included:

- Offered a combined wholesale broadband service that supported both POTS and xDSL.
- Maintained a process for providing timely specific price quotes to telecommunications carriers requesting specific service or functionality.
- Made all existing technically feasible Advanced Services features and functions available to telecommunications carriers.
- Made available to all telecommunications carriers all existing technically feasible Advanced Services features and functions of equipment installed in remote terminals where the SBC/Ameritech incumbent LEC deploys a NGDLC architecture that supports both POTS and xDSL services. The availability of existing features and functions is subject to the factors specified in Paragraph 8 (of Appendix A) and a determination by the SBC/Ameritech incumbent LECs that such features and functions would not reduce the capacity of the remote terminal.

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- Huts and Controlled Environmental Vaults Next Generation Digital Loop Carrier (“NGDLC”) architecture were deployed during 2001 so that approximately 20 percent of the space would be made available to telecommunications carriers. In addition, in response to special construction requests, cabinets using NGDLC architecture were deployed in 2001 so that approximately 15 percent of space would be made available to telecommunications carriers, or with access arrangements made available in an adjacent cabinet.
- Maintained a process for special construction arrangements providing for telecommunications carriers access to sub-loop elements.
- Where SBC/Ameritech deployed new fiber feeder to NGDLC architecture that supported both POTS and xDSL, in response to a special construction request, spare dark fiber would have been terminated on the remote terminal sites.
- SBC provided space for telecommunications carriers to collocate their Optical Concentration Devices or functionally equivalent equipment in accordance with the Commission's collocation rules
- Except for Acts of God and/or to prevent duct blockage, the SBC ILECs did not retire any mainframe terminated copper facilities overlaid by NGDLC architecture prior to September 1, 2001.
- Hosted collaboratives to address operational and technical issues regarding access to NGDLC remote terminals and new types of xDSL features and functions.
- Offered a combined voice and data service to all telecommunications carriers.
- Made vendor NGDLC hardware and software specifications available through the Company's Internet page.

2. *Discounted Surrogate Line Sharing Charges*

Description and Objectives: Condition 2 required SBC to offer the Surrogate Line Sharing discount for unbundled local loops until line sharing was implemented.

This condition sunset when line sharing was implemented on May 29, 2000.

3. *Advanced Services Operations Support Systems (OSS)*

Description and Objectives: Condition 3 requires SBC to provide options for pre-ordering and ordering components used to provide digital subscriber line and other Advanced Services. This Condition also requires SBC to provide unaffiliated carriers with access to the OSS enhancements on a specified schedule and makes provisions for voluntary payments if dates are missed. Additionally, until OSS enhancements are deployed and the EDI interface is used by the Advanced Services affiliates for pre-ordering and ordering (at least 75 percent of pre-order inquiries and 75 percent of orders) the Advanced Services components used by the Advanced Services affiliates in the relevant geographic area, SBC is required to provide a discount of 25 percent from the recurring and nonrecurring unbundled local loop charges used to provide Advanced Services.

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This condition sunset October 22, 2001 when the required OSS enhancements were deployed, except in Connecticut where the deployment is scheduled in 2002. However, SBC remains obligated to make the required OSS available for not less than 36 months after they were deployed.

The following addresses SBC's compliance with the requirements of this condition:

- Until developing and deploying enhancements to existing Datagate and EDI interfaces, SBC provided telecommunications carriers within the states of Arkansas, California, Kansas, Missouri, Nevada, Oklahoma, and Texas with access to the same pre-order interfaces utilized by SBC's retail operations in those states to provide theoretical loop length information, or SBC's retail operations utilized the same Datagate and/or Verigate pre-order interfaces that were available to unaffiliated telecommunications carriers to obtain theoretical local loop length information. Additionally, SBC provided unaffiliated telecommunications carriers access to SBC's existing EDI interface for ordering within the states of Illinois, Indiana, Michigan, Ohio, and Wisconsin.
- SBC offered to provide unaffiliated telecommunications carriers with direct access to SORD or equivalent service order processing systems for pre-ordering and ordering xDSL and Advanced Services.
- SBC deployed enhancements to the existing Datagate or EDI interfaces for pre-ordering and ordering xDSL and other Advanced Services in all of the required SBC states according to the Future Mode of Operation Timeline – Release Schedule in the Plan of Record filed April 3, 2000, and Phase 2 of the collaborative sessions ended on December 22, 2000. SBC completed the Phase 3 enhancements to Advanced Services OSS by the October 22, 2001 deadline. SBC filed notice with the FCC on October 23, 2001 (within three days of October 22, 2001) that the requirements of Phase 3 had been completed.
- SBC provided telecommunications carriers the required discount of 25 percent from the recurring and nonrecurring charges for unbundled loops used to provide Advanced Services until after the October 22, 2001 date that OSS enhancements were deployed. (In Connecticut, the 25 percent discount was required to be provided for all of 2001 as the OSS enhancements are not required to be deployed until 2002.) However, during 2001, the Company learned that unbundled loops provided for IDSL at Nevada Bell and Pacific Bell were not receiving the discount and the Company issued correcting credits in 2001 and 2002. At SWBT, credits for a nominal amount of billing for IDSL loops were not issued timely but were subsequently corrected. The Company discovered in early 2001 that rate tables at the Southern New England Telephone Company ("SNET") had inadvertently been changed, discontinuing some discounts. The rate tables were corrected in April 2001, at which time retroactive credits were also issued. The Company also learned in early 2002 that certain xDSL loops at Ameritech did not receive the required discount. The Company is in process of identifying the affected CLECs and associated order volumes and will issue correcting credits as appropriate.

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4. Access to Loop Information for Advanced Services

Description and Objectives: Condition 4 requires SBC to provide unaffiliated telecommunications carriers with non-discriminatory access to the same local loop information for the deployment of xDSL and Advanced Services that is available to SBC's retail operations, including the retail operations of the Advanced Services affiliates. Additionally, Condition 4 specifies timelines for the deployment of electronic pre-order OSS access to theoretical loop length, electronic pre-order Internet access to theoretical loop length, and access to loop make-up information regarding the capability of loops to support Advanced Services.

This condition sunsets on October 23, 2002, 36 months after the effective date of the Merger Conditions (October 23, 1999), except with respect to the obligation to make available the systems and information described in this Condition for 36 months after they are made available to unaffiliated telecommunications carriers.

The following addresses SBC's compliance with the requirements of this condition:

- SBC provided CLECs with non-discriminatory access to the same local loop information for the deployment of xDSL and Advanced Services that was available to SBC's retail operations, including the retail operations of the Advanced Services affiliates.
- SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order OSS access to the theoretical loop length on an individual address basis. Although SBC was not required to provide such access in the Ameritech states and Connecticut until 22 months after the MCD (August 8, 2001), SBC made pre-order access to loop length by individual address available in all regions in 2000.
- SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order Internet access to theoretical loop length based upon a zip code of end users in a wire center at no additional charge.
- SBC provided unaffiliated telecommunications carriers with non-discriminatory access to loop make-up information regarding the capability of loops to support Advanced Services that is available in SBC's records, in response to address-specific written requests. Pricing for this manual process was in compliance with any applicable Commission pricing rules for Unbundled Network Elements ("UNEs").

5. Loop Conditioning Charges and Cost Studies

Description and Objectives: Condition 5 specifies that cost studies with proposed rates, must be filed with each state commission for conditioning xDSL loops in the SBC Service Area within each SBC State that had not already started or completed cost proceedings for this service. The cost studies and proposed rates shall be prepared in compliance with the methodology set forth in the Commission's and the relevant state commission's pricing rules for UNEs. During the interim period prior to approval of

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these rates, SBC will condition loops of less than 12,000 feet (based on theoretical loop length) at no charge to the Advanced Services provider.

This condition sunsets on October 23, 2002, 36 months after the effective date of the Merger Conditions (October 23, 1999).

The following addresses SBC's compliance with the requirements of this condition:

- Pending final approval of state-specific rates, interim loop conditioning rates for xDSL loops were made available to advanced services providers. Additionally, no charge was assessed for conditioning loops of less than 12,000 feet (based on theoretical loop length), and authorization to perform and agreement to pay were obtained from the provider before proceeding with conditioning work identified by SBC. During 2001, final approvals for state-specific rates were obtained in two additional states, and as of December 31, 2001, final approvals were pending in the remaining five states.

6. Non-discriminatory Rollout of xDSL Services

Description and Objectives: In an effort to ensure that xDSL services are available to low-income consumers, this Condition provides that at least 10 percent of all rural and 10 percent of all urban wire centers be designated as low-income wire centers. Once xDSL is deployed in 20 wire centers in a given category (i.e. rural or urban) in a given state, at least 10 percent of the wire centers must be in the low-income pool. The Company is required to file a quarterly report with the Commission describing the status of its xDSL roll-out.

This condition expires effective April 8, 2003, 36 months after the Company's first reporting obligations under this condition.

The following addresses SBC's compliance with the requirements of this condition:

- Where SBC had deployed xDSL in at least 20 urban or 20 rural wire centers in a particular state, at least 10 percent of the urban or rural wire centers in which xDSL had been deployed were wire centers identified from the Low-Income Pool.
- SBC filed quarterly timely reports with the FCC describing the status of the xDSL roll-out. However, because of inconsistencies in wire center designations performed in 1999 that were corrected in 2001, reports for the first and second quarters of 2001 omitted a few wirecenters or reported the wirecenter in the wrong income group, but this had no impact on meeting the minimum 10 percent low-income wirecenter deployment requirement. The Company submitted corrected reports for the first and second quarters of 2001 to the Commission on December 27, 2001.

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7. Carrier-to-Carrier Performance Plan (Including Performance Measurements)

Description and Objectives: Condition 7 specifies that SBC shall implement the Carrier-to-Carrier Performance Plan (Plan). SBC is to provide the FCC with monthly performance measurement results that demonstrate SBC's performance provided to the aggregate of CLECs within each of the 13 SBC states. This is to be compared to SBC's retail performance (where applicable) or to a benchmark when a retail comparison is not appropriate. SBC is also obligated to make voluntary payments of up to \$1.125 billion over 3 years to the U.S. Treasury based on SBC's performance. SBC is also required to provide the FCC, state commissions, and CLECs with access to SBC's Internet web site where these parties can obtain performance measurement results provided to the aggregate of all CLECs as compared to SBC's retail performance.

The Condition sunsets within each state, except for Connecticut, upon the earlier of (i) the due date for the 36th potential monthly Plan payment for that state, or (ii) the first date on which SBC is first authorized to provide in-region, interLATA services in that state. This Condition remains in effect within Connecticut until the due date for the 36th potential monthly Plan payment for Connecticut.

The following addresses SBC's compliance with the requirements of this condition:

- SBC reported, on a monthly basis and in each of its states according to the schedule established in Appendix A to the Merger Conditions, its performance in 20 measurement categories (with sub-measurements) that address functions that may have a particularly direct effect on CLECs and their customers. SBC provided the FCC staff with the required performance measurement data for each month during the year 2001 for the Southwestern Bell,³ Pacific Bell, Nevada Bell, Ameritech and SNET regions. These files were transmitted by the 20th of each month or the first business day after the 20th when the due date was on a weekend or federal holiday. In addition, these performance measurement results were also posted to the SBC Internet web site coincident with the monthly transmittals to the FCC staff. While substantially correct, occasionally certain data filed during the Report Period were either restated or corrected prospectively.
- SBC provided the Chief of the Common Carrier Bureau with notice of any changes to the design or calculation of these measurements adopted by the Texas or California State commissions. SBC notified the Chief of the Common Carrier Bureau on June 5, 2001 that the California Public Utility Commission had ordered changes to the SBC performance measurements. As directed by the Commission on June 18, 2001, these changes were implemented for the SBC states of California and Nevada effective May 1, 2001. SBC also notified the Accounting Safeguards Division in June 2001 that additional changes to the business rules had been ordered

³ Due to changes in the reporting period specified in the 1.7 version of the Texas business rules for the trunking measures, Southwestern Bell Telephone provided performance measurements results in a supplemental transmittal each month. This was formally endorsed by the FCC staff at the June 2001 six month review.

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- by the Texas Public Utilities Commission in May 2001 and of SBC's intent to review these changes at the next six month review of the performance measures. As directed by the FCC staff, notification and the request to implement the new rules in Arkansas and Missouri was provided simultaneously to the Secretary of the FCC and to the Chief of the Common Carrier Bureau on July 9, 2001.
- The Chief of the Common Carrier Bureau determines whether and when SBC will implement such changes adopted by the Texas state commission in the remaining SBC states except for California and Nevada, and whether and when SBC will implement such changes adopted by the California state commission in California and Nevada. On January 23, 2001, the Chief, Accounting Safeguards Division, CCB approved SBC's December 7, 2000 request to extend the implementation deadline for business rule changes in the Ameritech states from January 2001 to March 2001 results reported on April 20, 2001. On May 4, 2001, Accounting Safeguard Division's staff approved SNET's plan to implement the Texas 1.7 business rules, the disaggregations required by the FCC line sharing order, the method for tracking performance results for the advanced services affiliate separate from the CLEC aggregate and the broadband measures specified in the Second Memorandum Opinion and Order in CC Docket 98-141. On June 13, 2001 (with subsequent modification on March 11, 2002), the FCC staff also approved implementation of the four Texas version 1.7 business rules (measures 1, 6c, 12c and 13c) which had been held in abeyance in the November 8, 2000 approval to implement the remaining business rules in the SWBT states. SBC also requested permission to implement the Texas 2.0 business rules at Ameritech and SNET on November 27, 2001. The FCC approved SBC's proposed business rule changes (with certain modifications) effective with January 2002 results, in a letter released December 21, 2001.
 - The Plan remains effective for the SBC service area within each state, except for Connecticut, until the earlier of (i) 36 months after the date that SBC was first potentially obligated to make Plan payments for that state, or (ii) the first date on which SBC was first authorized to provide in-region, interLATA services in that state. The FCC approved the Kansas/Oklahoma 271 application on January 19, 2001 effective March 7, 2001. The FCC issued a public notice on February 1, 2001 extinguishing the obligation to report performance measures for these states (DA 01-261). Accordingly, SBC provided the final report of Kansas and Oklahoma performance measures for February 2001 activity on March 20, 2001 for all measures except performance measure 15, Percent Trunk Blockage, which was filed on April 5, 2001. In addition, the FCC approved the Arkansas/Missouri 271 application on November 16, 2001, effective November 26, 2001. The FCC issued a public notice on December 13, 2001 extinguishing the obligation to report performance measures for these states (DA 01-2889). Accordingly, SBC provided the final report of Arkansas and Missouri performance measures for October 2001 activity on November 20, 2001 for all measures except performance measure 15, Percent Trunk Blockage, which was filed on December 18, 2001.
 - The Carrier-to-Carrier Performance Plan attached the obligation for SBC to make voluntary payments to the U.S. Treasury in all SBC states where 271 approval has not been obtained. SBC and the FCC have been engaged in a dialogue regarding the appropriate application of the payment calculation methodology under certain

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circumstances. During the Report Period, SBC calculated payments using its proposed payment calculation methodology which was presented to the FCC staff on June 29, 2000 and further documented in a proposal submitted to Commission staff on August 10, 2000. SBC received additional explanation of the Common Carrier Bureau's (Bureau) views on the method for calculating payments under the Merger Order on February 6, 2002, and is in the process of implementing the Bureau's guidance. As further instructed by the FCC Staff on February 26, 2002, the final guidance is effective beginning with January 1, 2002 results so no recalculation of payment amounts for 2001 based on these methodology decisions is required. Each payment required during the 2001 Report Period was made to the Commission within 30 days of when the performance results became available or on the first business day after 30 days when the due date was on a weekend or federal holiday. These voluntary payments were not included in the revenue requirements of any SBC ILEC. The Company provided notice to the Commission within five business days of each payment

- Pursuant to the requirement that SBC and the Chief of the Common Carrier Bureau shall jointly review the 20 measurements on a semi-annual basis, meetings were held between the FCC staff and SBC on June 27, 2001 and December 6, 2001 to review the performance measurements.
- The FCC, in its Order on Review, File No. EB-00-1H-0432 released May 29, 2001, affirmed the Enforcement Bureau's finding that SBC did not properly report certain performance data in 1999 and 2000 in accordance with its published Business Rules adopted in the Carrier-to-Carrier Performance Plan and affirmed the imposition of an \$88 thousand forfeiture penalty. SBC paid the forfeiture penalty on June 28, 2001.

8. *Uniform and Enhanced OSS*

Description and Objectives: Condition 8 generally provides for the development and deployment of uniform, electronic OSS throughout the 13-state SBC Service Area. In particular, this condition requires SBC to develop and deploy uniform application-to-application and graphical user interfaces that support pre-ordering, ordering, provisioning, maintenance/repair, and billing. It also requires SBC to develop and deploy uniform business rules for completing CLEC local service requests, or a software solution that ensures that CLEC-submitted local service requests are consistent with SBC's business rules. Condition 8 further requires SBC to develop and offer to state commissions a uniform change management process. In addition, it requires SBC to offer to develop both direct access to SBC's service order systems and enhancements to the existing Electronic Bonding Interface ("EBI") interface for OSS that support maintenance and repair services for a period of 30 months following the MCD.

This condition will sunset in 2002, except with respect to the obligation to provide access to the OSS enhancements and additional interfaces required by this Condition for not less than 36 months after they are deployed.

The following addresses SBC's compliance with the requirements of this condition:

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- SBC followed the terms of the amended Uniform and Enhanced Plan of Record (“POR”) in its entirety as directed by the FCC on September 22, 2000. In addition, on April 9, 2001 SBC applied to the Arbitration Panel duly appointed pursuant to the Section III.j of the POR for an extension of the mandated release dates for certain pre-order and order interfaces. The Arbitration Award, as filed with the Commission on June 4, 2001, extended the release dates for the pre-order and order interfaces from September 29, 2001 for Pacific Bell, Nevada Bell and SWBT, November 17, 2001 for Ameritech, and April 20, 2002 for SNET to February 28, 2002, March 22, 2002 and June 30, 2002, respectively. On February 25, 2002, the Company submitted a letter to the Chief of the Common Carrier Bureau requesting an extension of the target release dates.
- The Company continued to offer to develop direct access to SORD and Ameritech’s and SNET’s equivalent service order processing systems, and to develop enhancements to the existing EBI for OSS that support maintenance and repair services.
- The Commission extended the target date for completion of Phase 1 of the Uniform Business Rules Plan of Record to March 15, 2001 in DA 01-454, released February 20, 2001 and then to April 30, 2001 in DA 01-594, released March 7, 2001. The Phase 2 collaborative sessions for the Uniform Business Rules Plan of Record began on April 30, 2001. The FCC, in DA 01-1915 adopted August 10, 2001 and released August 13, 2001, granted an extension of time for additional collaborative sessions and directed that Phase 2 would end on October 19, 2001. The FCC, in DA 01-2450 adopted October 18, 2001 and released October 19, 2001, granted a limited extension of time to conclude collaborative sessions on November 19, 2001. Based on this extension, Phase II ended on November 19, 2001. The Company has until April 19, 2003 to complete Phase III.
- SBC continued implementation of the 13-state Change Management Plan (CMP) that was filed with the Commission on December 8, 2000. Several companies filed a response to that filing. SBC continued to negotiate with those companies and an agreement was reached. SBC filed the 13-state Change Management Plan with the commission of each of the 13-states on March 13, 2001.
- All required notices regarding satisfaction of the target date for completion of various phases of the OSS Improvement Plan were completed within the timeframes required by the Merger Conditions.

9. Restructuring OSS Charges

Description and Objectives: Condition 9 requires SBC to eliminate all charges to the Remote Access Facility and Information Services Call Center and eliminate manual processing charges in excess of the charges that apply for processing similar orders submitted electronically for orders of 30 lines or less where SBC does not make an electronic interface available.

This condition sunsets on October 23, 2002, 36 months after the effective date of the Merger Conditions (October 23, 1999).

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The following addresses SBC's compliance with the requirements of this condition:

- The Company did not charge for the Remote Access Facility and Information Services Call Center or manual processing charges in excess of the charges that apply for processing similar orders submitted electronically for orders of 30 lines or less where SBC does not make an electronic interface available.

10. OSS Assistance to Qualifying CLECs

Description and Objectives: Condition 10 contains specific provisions for SBC to adopt measures for assisting qualifying CLECs in using SBC's OSS. Under this Condition, SBC is required to provide free training and OSS expert teams for CLECs who self-certify as being small CLECs (i.e., with annual revenue under \$300 million).

This condition sunsets on or about November 7, 2002, 36 months after the date the above-referenced OSS expert teams were designated and first made available.

The following addresses SBC's compliance with the requirements of this condition:

- The Company maintained OSS expert teams available to provide OSS training and support to qualifying CLECs at no charge.

11. Collocation Compliance

Description and Objectives: Condition 11 requires SBC to provide collocation consistent with the FCC's rules⁴. Furthermore, the Condition requires that SBC waive 100 percent of the total non-recurring collocation costs for certain instances of missed due dates.

⁴ Condition 11 "Collocation Compliance" of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in the following orders and rules: *Deployment of Wireline Service Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *First Report and Order* (FCC 99-48), 14 FCC Rcd 4761 (1999), as modified by *GTE Service Corporation v. FCC*, 205 F.3d 416 (D.C. Cir. 2000), and as modified and expanded by *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98* (FCC 00-297), 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order* (DA 00-2528), released November 7, 2000 ("Waiver Order"), and as modified and expanded by *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Fourth Report and Order* (FCC 01-204), 16 FCC Rcd 15435 (2001), and the collocation rules codified in 47 C.F.R. Sections 51.319 (a)2(iv), 51.321 and 51.323 as modified by the waiver granted to SBC in the Waiver Order. Additionally, "Collocation Compliance" as referenced herein includes compliance with certain collocation-related requirements applicable only to SBC/Ameritech, which were adopted as conditions to the Commission's order modifying the separate affiliate for advanced services requirements of the Merger Conditions. *Application of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141 and ASD File No. 99-49, *Second Memorandum Opinion and Order* (FCC 00-336), App. A, paras. 5(a), 5(b)(1), 5(b)(2), 5(c), 5(d) and 6

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This condition sunsets on October 23, 2002, 36 months after the effective date of the Merger Conditions (October 23, 1999).

The following addresses SBC's compliance with the requirements of this condition:

- The Company maintained the policy to issue refunds of 100 percent of the total non-recurring collocation costs to telecommunications carriers for collocation missed due dates in excess of 60 days.
- In certain states where an application for physical collocation was denied on the basis that physical collocation was not practical because of space limitations, the Company did not deliver detailed floor plans or diagrams to the state commission if the state commission had requested that such materials not be sent automatically but instead be delivered at such time as the state commission requests them. The Company will deliver the detailed floor plans or diagrams to such state commission any time thereafter upon state commission's request. SBC believes that meeting the state commission requests and processes in this manner is consistent with the FCC's floor plan rule.
- SBC provided collocation consistent with the FCC's collocation rules, except as follows:
 1. Title (47 CFR 51.321(h)) requires the Company to maintain a publicly available document, posted for viewing on the ILEC's publicly available Internet site, indicating all premises that are full, and to update such a document within ten days of the date at which a premises runs out of physical collocation space. The Company's compliance with this rule, including the Company's collocation posting policy, is the subject of a FCC Enforcement Bureau action. See *In the Matter of SBC Communications Inc. Apparent Liability for Forfeiture*, File No. EB-00-IH-0326a NAL/Acct. No. 200132080015, *Order of Forfeiture*, DA 01-1273, released May 24, 2001 (Application for Review filed June 25, 2001), and *Order on Review*, FCC 02-61, released February 25, 2002. The Order of Forfeiture states: "SBC's policy is to post notice of exhausted collocation space only when it determines exhaustion has occurred, 'as a general matter . . . pursuant to the denial or partial denial of a collocation application, though it sometimes is made in the course of approving such an application or conducting an internal floor space assessment.'" *Id.* at para. 6. The Order found that SBC's policy was in conflict with the collocation posting rule and the Company had violated the rule. In certain instances in 2001, the Company posted updates to

(rel. Sept. 8, 2000) (Pronto Order). As a result of the court's ruling in *ASCENT v. FCC*, 235 F.3d 662 (D.C. Cir. 2001), the separate affiliate for advanced services requirements in the Merger Conditions, including the collocation-related and other requirements adopted in the *Pronto Order*, automatically sunset on January 9, 2002. *SBC/Ameritech Order*, 14 Rcd 11712, App. C, Para. 12c (providing that Pronto conditions sunset on date SBC is no longer required to provide advanced services through a separate affiliate); *Pronto Order*, FCC 00-336, App. A, para. 9. See also, *Application of GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Section 214 and 310 Authorizations and Applications to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, Order, DA 01-1717, at para. 1, note 2 (rel. Jul. 19, 2001)(concluding that, under a comparable sunset provision in the Bell Atlantic/GTE merger, "the advanced services affiliate requirement will automatically sunset on January 9, 2002").

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the Internet site after the required 10-day period. The Company implemented corrective action where needed, and has modified its posting policy, to ensure future postings are made on a timely basis. Concerning its modified posting policy, the Order stated: "We note that in SBC's pending application to the Commission to provide long distance service in Missouri, SBC proposed to modify its posting policy so as to post notice of a central office closing within 10 days of a collocation request or space assignment that would exhaust the collocation space at that central office. This approach would bring SBC into compliance with the rule." *Id.* at para. 10. SBC adopted this modified posting policy in 2001.

2. The Waiver Order requires the Company to notify a requesting carrier whether its physical collocation space request can be accommodated within eight business days (roughly, 11 calendar days) of the Company's receipt of a physical collocation application, except to the extent a state has set its own intervals. In certain instances the Company did not provide notification within the appropriate timeline to the carrier of whether its physical collocation space request could be accommodated. At the beginning of 2001, the Company centralized operations on a 13 state basis, implemented new procedures and strengthened existing processes to ensure timely responses.
3. In some cases, the Company incorrectly billed unaffiliated telecommunications carriers for collocation charges or did not bill its Advanced Services affiliates accurately. Centralization of operations in early 2001 resulted in the development of new billing procedures and the strengthening of existing billing processes, which enhanced billing accuracy for the remainder of the Report Period.

12. *Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements*

Description and Objectives: Condition 12 facilitates market entry by CLECs throughout the SBC region in two ways:

- 1) Offering telecommunications carriers within the SBC region any new arrangement or UNE secured by SBC outside of its region; and,
- 2) Making any interconnection arrangement or UNE negotiated by SBC or its affiliates in one SBC state available in all other states throughout its region.

This condition sunsets on or about December 7, 2002, 36 months after SBC first made available to any requesting telecommunications carrier generic interconnection and resale terms and conditions covering the SBC/Ameritech Service Area in all SBC/Ameritech States.

The following addresses SBC's compliance with the requirements of this condition:

- The Company continued to make available to telecommunications carriers eligible service arrangements (i.e., interconnection arrangements or UNEs) to which the Company was a party either as the incumbent in its 13-state region or as a telecommunications carrier outside of its 13-state region. The Company posted

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approved out-of-region agreements secured by SBC to the Company's Internet web site.

13. *Multi-State Interconnection and Resale Agreement*

Description and Objectives: Condition 13 requires SBC to offer telecommunications carriers generic interconnection and/or resale agreements covering multiple SBC states. Pricing under a multi-state generic agreement shall be established on a state-by-state basis, and SBC shall not be under any obligation to enter into any arrangement for a state that is not technically feasible and lawful in that state.

This condition sunsets on October 23, 2002, 36 months after the effective date of the Merger Conditions (October 23, 1999).

The following addresses SBC's compliance with the requirements of this condition:

- The Company continued to make available multi-state interconnection/resale agreements throughout 2001 and entered into multi-state interconnection and/or resale agreements pursuant to requirements that pricing would be established on a state-by-state basis and that approval of the agreement in one state would not be a precondition for implementation in another state.

14. *Carrier-to-Carrier Promotions: Unbundled Loop Discount*

Description and Objectives: Condition 14 requires that SBC offer a Promotional Discount program whereby a CLEC can purchase at a discount, a basic unbundled network element facility for use in providing residential telephone service to its end user customers. Each loop sold during the promotional period is allowed the promotional discount for a period of three years. This Condition provides an offering window that is the latest of the following: 1) 24 months after commencement of the offering window period (November 7, 1999); 2) the first day on which SBC is authorized to provide in-region, interLATA services in the relevant state; or 3) the first date on which SBC provides facilities-based telephone exchange service to at least one customer in each of the 15 out-of-territory markets pursuant to paragraph 59 of the Merger Conditions (April 8, 2001). The offering window may end sooner in a state than provided above if and when a maximum number of loops is reached in a given state. SBC shall provide notice to CLECs when 50 percent and 80 percent of these maximum numbers are reached in each SBC state.

The requirement to offer the discount sunsets as described in the preceding paragraph, although the Company remains obligated to discount loops ordered pursuant to this offering for 36 months after a qualifying loop is installed and operational, or the period during which the loop remains in service at the same location and for the same telecommunications carrier, whichever is shorter.

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The following addresses SBC's compliance with the requirements of this condition:

- The Company offered the unbundled loop discount as required by this Condition during the Report Period. The requirement to offer the discount on new orders sunset on November 7, 2001 upon 24 months after the commencement of the offering window period in Connecticut, Kansas, Oklahoma, and Texas. The Condition sunset in Arkansas and Missouri on November 26, 2001 concurrent with authorization to provide in-region, interLATA services in those states as of that date.
- The Company continued to provide the unbundled loop discount for eligible loops ordered while the offering window was open. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the promotional discount.
- The reporting thresholds towards the maximum number of unbundled local loops that SBC was required to provide at the promotional discounted price were not met in any state during 2001.

15. Carrier-to-Carrier Promotions: Resale Discount

Description and Objectives: Condition 15 requires SBC to offer CLECs promotional resale discounts on telecommunications services that SBC provides at retail to subscribers who are not telecommunications carriers, where such services are resold to residential end user customers. The offering window for Promotional Resale Discounts in each state shall be either 36 months after commencement of the offering, or the month following the date when the sum of resold lines in service in a state at the Promotional Resale Discounts plus the quantity of Promotional End-to-End UNE Combinations in service in the state reaches a maximum state-specific quantity. SBC is required to notify CLECs when thresholds of 50 percent and 80 percent of the maximum sum of Promotional Resale lines and UNE Combinations are reached.

This condition sunsets on November 7, 2002, 36 months after commencement of the Offering Window for the promotion. However, the Company remains obligated to provide the promotional resale discount for 36 months from the date a qualifying resold service is installed and operational, or the period during which the resold service remains in service at the same location and for the same telecommunications carrier, whichever is shorter.

The following addresses SBC's compliance with the requirements of this condition:

- The Company continued to offer and provide the promotional resale discount required by this Condition during 2001.
- Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the promotional resale discount.
- The Company experienced problems in applying discounts correctly for certain usage-based resale services during 2001 because of errors in billing system programming. The Company corrected billing systems at the affected ILECs and

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- issued retroactive credits. In addition, Ameritech inadvertently removed the required discounts from resold services if the CLEC's end-user customer moved to another location. Ameritech's systems do not retain the information required to calculate the credits, and the Company contacted affected CLECs to request information associated with these moves in order to calculate the appropriate credits and continues to apply these credits upon identification.
- SWBT provided Internet notice that as of June 30, 2001 that 50 percent of the maximum required quantity of resold lines at the Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations in service for Arkansas had been reached. The quantity of resold lines at the Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations in service for Arkansas subsequently declined to less than 50%, and is below 50% in Arkansas as of the date of this report. The reporting thresholds towards the maximum number of lines Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations that SBC was required to provide at the promotional discounted price were not met in any state other than Arkansas during the Report Period.

16. Carrier-to-Carrier Promotions: UNE Platform

Description and Objectives: Condition 16 requires SBC to offer CLECs Promotional End-to-End UNE Combinations for the provisioning of residential POTS service and residential Basic Rate Interface ("BRI") Integrated Services Digital Network ("ISDN"). This condition provides for the combination of unbundled network elements into an integrated service for use by CLECs in providing service to residential end user customers. The offering window for Promotional End-to-End UNE Combinations in each state shall be either 36 months after commencement of the offering, or the month following the date when the sum of resold lines in service in a state at the Promotional Resale Discounts plus the quantity of Promotional End-to-End UNE Combinations in service in the state reaches a maximum state-specific quantity. SBC is required to notify CLECs when thresholds of 50 percent and 80 percent of the maximum sum of Promotional Resale lines and UNE Combinations are reached.

This condition sunsets on November 7, 2002, 36 months after commencement of the Offering Window for the promotion. However, the Company remains obligated to provide the promotional UNE platform for 36 months from the date a promotional UNE platform is installed and operational, or the period during which the promotional UNE platform remains in service at the same location and for the same telecommunications carrier, whichever is shorter.

The following addresses SBC's compliance with the requirements of this condition:

- The Company continued to offer the UNE platform promotion required by this Condition during the Report Period and provided the UNE platform promotion to requesting telecommunications carriers.

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- Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the UNE platform promotion.
- SWBT provided Internet notice that as of June 30, 2001 that 50 percent of the maximum required quantity of resold lines at the Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations in service for Arkansas had been reached. The quantity of resold lines at the Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations in service for Arkansas subsequently declined to less than 50%, and is below 50% in Arkansas as of the date of this report. The reporting thresholds towards the maximum number of lines Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations that SBC was required to provide at the promotional discounted price were not met in any state other than Arkansas during the Report Period.

17. *Offering of UNEs*

Description and Objectives: Condition 17 requires that SBC confirm and continue to make available to telecommunications carriers within each of the SBC States, such UNEs or combinations of UNEs that were made available in the respective state under SBC's or Ameritech's local interconnection agreements in effect on January 24, 1999. In addition, these UNEs are to be made available under the same terms and conditions that such UNEs or combinations of UNEs were made available on that date. SBC must continue to make these UNEs available until the earlier of (1) the date the Commission issues a final order in its UNE remand proceeding in CC Docket No. 96-98 finding that the UNEs or combination of UNEs is not required to be provided by SBC in the relevant geographic area; or, (2) the date of a final, non-appealable judicial decision providing that the UNE or combination of UNEs is not required to be provided by SBC in the relevant geographic area.

The sunset date of this condition is subject to a pending appeal of a judicial proceeding in this matter.

The following addresses SBC's compliance with the requirements of this condition:

- The Company complied with this Condition by continuing to make available all UNEs or combinations of UNEs offered as of January 24, 1999, under the same terms and conditions that such UNEs or combinations of UNEs were made available on that date.

18. *Alternative Dispute Resolution through Mediation*

Description and Objectives: Condition 18 required that SBC implement, subject to the appropriate state commission's approval and participation, an alternative dispute resolution ("ADR") mediation process to resolve carrier-to-carrier disputes regarding the provision of local services, including disputes related to existing and effective interconnection agreements. A specific process for Alternative Dispute Resolution

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through Mediation was included in Attachment D to Appendix C of the Merger Conditions.

This condition sunsets on October 23, 2002, 36 months after the effective date of the Merger Conditions (October 23, 1999).

The following addresses SBC's compliance with the requirements of this condition:

- ADR was implemented in 1999 and remained available in 2001.

19. Shared Transport in Ameritech States

Description and Objectives: Condition 19 required that interim shared transport be offered in the Ameritech states prior to the merger closing. Paragraph 56 of the Merger Conditions outlines the requirement to offer, within 12 months of the merger closing, a Long Term Shared Transport option in the Ameritech states that is "substantially similar" to the shared transport that SBC offers to telecommunications carriers in Texas.

This condition sunsets on the earlier of (i) the date the Commission issues a final order in its UNE remand proceeding in CC Docket No. 96-98 finding that shared transport is not required to be provided by SBC/Ameritech in the relevant geographic area, or (ii) the date of a final, non-appealable judicial decision providing that shared transport is not required to be provided by SBC/Ameritech in the relevant geographic area.

The following addresses SBC's compliance with the requirements of this condition:

- During 2001, SBC offered availability of shared transport in Ameritech States under terms and conditions, other than rate structure and price, that were substantially similar to the most favorable terms SBC offered to CLECs in Texas as of August 27, 1999.
- The FCC's Enforcement Bureau, in its Notice of Apparent Liability for Forfeiture ("NAL"), File No. EB-01-1H-0030, released January 18, 2002 alleged that the Company, in violation of the Merger Order, did not provide shared transport in the Ameritech States under terms and conditions substantially similar to those that it offered in Texas as of August 27, 1999. The Company filed a response with the Commission on March 5, 2002 contesting the FCC's allegations. Resolution of the Commission's action is pending.

20. Access to Cabling in Multi-Unit Properties

Description and Objectives: Condition 20 requires SBC to offer for 12 months after the MCD to conduct trials in five cities with CLECs to provide them with access to cabling within Multi-Dwelling Units premises ("MDUs") and multi-tenant premises housing small businesses ("MTUs"). At the conclusion of a requested trial SBC, is to negotiate interconnection agreements with the CLEC community for access to cabling that SBC owns and controls in multi-unit properties. In addition, when hired to install new cables

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in new or retrofitted MDUs, SBC must provide written notice to developers and property owners stating (unless the property owner objects) that SBC will install and provide new cables to a single point of interconnection.

This condition sunsets on October 23, 2002, 36 months after the effective date of the Merger Conditions (October 23, 1999).

The following addresses SBC's compliance with the requirements of this condition:

- SBC, when hired to install new cables in a new or retrofitted MDU or MTU, sent letters to developers and property owners stating that, unless the property owner objected, SBC would install and provide new cables to a single point of interconnection. This offering was contingent upon the property owner or third party owning and controlling the cabling beyond the single point of interconnection.

Fostering Out-of-Territory Competitive Entry

21. Out-of-Territory Competitive Entry (National-Local Strategy)

Description and Objectives: Condition 21 requires SBC to enter at least 30 major markets as a facilities-based competitive provider of local services to business and residential customers as chosen from the list of 50 markets listed in Attachment E to the Merger Order. SBC was required to enter the Boston, Miami, and Seattle markets within 12 months of the MCD. SBC was required to enter an additional 12 markets within 18 months of the MCD, and the remaining 15 markets the later of (i) 30 months after the MCD, or (ii) 60 days after the date upon which SBC first holds valid authorization to provide originating voice and data interLATA services to at least 60 percent of all access lines (as reported under the Commission's Part 43 rules) served by SBC's ILECs (including SNET).

This condition sunsets when SBC has met each of the service requirements set forth in para. 59(c) of the Merger Conditions for each of the 30 markets on or before the deadlines set forth therein.

The following addresses SBC's compliance with the requirements of this condition:

- On March 28, 2001, the Company notified the Commission that it had installed local telephone exchange switching capacity and was providing facilities-based local exchange service to at least three unaffiliated customers in the following seven markets: Atlanta, Denver, Ft. Lauderdale, Minneapolis, New York, Philadelphia and Phoenix. On April 9, 2001 the Company notified the Commission (within 3 days of the required reporting deadline) that it had installed by April 8, 2001 local telephone exchange switching capacity and was providing facilities-based local exchange service to at least three unaffiliated customers in the following 10 markets: Baltimore, Bergen-Passiac, Middlesex, Nassau, Newark, Orlando, Salt Lake City, Tampa, Washington D.C. and West Palm Beach. In total, SBC notified the FCC that

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it had installed in 2001 a local telephone exchange switching capacity and was providing facilities-based local exchange service to at least three unaffiliated customers in the above listed seventeen markets, five more than the required additional twelve markets to be deployed by April 8, 2001. Additionally, SBC began operations in the Charlotte and Louisville markets in November 2001, making a total of nineteen new markets that SBC entered in 2001.

- On September 28, 2001, prior to the October 8, 2001 deadline established 12 months after the initial deployment, the Company notified the Commission that in the Boston, Miami, and Seattle markets the Company:
 1. Had collocated facilities in at least 10 wire centers in the market that could be used to provide facilities-based service to customers served by those wire centers.
 2. Was offering facilities-based local exchange service to all business and residential customers served by 10 wire centers in the market.
 3. Was offering local exchange service to all business customers and all residential customers throughout the areas in the market that were within the local service area of the incumbent RBOC located within the PMSA of the market or the incumbent service area of a Tier 1 incumbent LEC serving at least 10 percent of the access lines as shown in the updated Tier 1 LEC study of these wire centers.

Improving Residential Phone Service

22. InterLATA Services Pricing

Description and Objectives: Condition 22 requires SBC to refrain from implementing mandatory minimum monthly or flat-rate charges for interLATA services provided to any in-region or out-of-region wireline residential customer within the United States.

This condition sunsets April 8, 2004, 36 months after the date that SBC was providing telephone exchange service to residential customers in at least 15 markets pursuant to Condition 21.

The following addresses SBC's compliance with the requirements of this condition:

- SBC did not charge any minimum mandatory monthly or flat-rate charges to any residential wireline customers in any in-region state where it had authority to offer interLATA services during 2001, nor to any out-of-region residential wireline customers in 2001.

23. Enhanced Lifeline Plans

Description and Objectives: Condition 23 requires SBC to offer an Enhanced Lifeline universal service plan to low-income residential subscribers in each of its states, upon acceptance of the state commissions within 12 months of presentation of the offer. The terms and conditions offered are to be similar to the Ohio Universal Service Assistance ("USA") Lifeline Plan as set forth in Ameritech Ohio's Alternative Regulation Plan.

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This condition has sunset with respect to the twelve-month window for state acceptance. In those states where the Enhanced Lifeline offer was accepted, SBC will maintain the plan for no less than 36 months following the effective date of the initial tariff.

The following addresses SBC's compliance with the requirements of this condition:

- SBC filed tariffs in states that accepted the Enhanced Lifeline offer within 60 days of such acceptance.
- The Enhanced Lifeline plan has been implemented in all the states that accepted the offer with discounts of up to \$10.20 per month as required by the agreement.
- SBC established toll-free access numbers for voice or fax communication with current and potential customers, and modified voice response units at its service centers to incorporate Enhanced Lifeline information for calls in which customers express an interest in obtaining new service, where the Enhanced Lifeline plan has been implemented.
- The Company implemented on-line verification of eligibility in those states in which terms were negotiated to permit the Company to access information necessary to verify a customer's participation in an eligible program.
- SBC established promotional budgets, as required by the merger agreement, to make potential customers aware of the Enhanced Lifeline plan or other programs that benefit low-income consumers, and expenditures are on track to meet required minimum annual promotional budget levels as required.
- In those states where the plan has been implemented, appropriate methods and procedures were put in place to implement operational provisions of the Enhanced Lifeline plan regarding payment arrangements for past due bills and no deposits are required for local service.
- In a state where the Enhanced Lifeline plan was implemented, existing Lifeline plan customers who would benefit, and in no way be adversely affected, were switched to the Enhanced Lifeline plan.

24. Additional Service Quality Reporting

Description and Objectives: Condition 24 requires SBC to file on a quarterly basis, state-by-state service quality reports in accordance with the National Association of Regulatory Utility Commissioners (NARUC) White Paper and ARMIS 43-05 reporting requirements. The data required by this condition shall be included on a Company Internet page or made available to relevant the state commissions.

This condition sunsets in each state 36 months following the date of SBC/Ameritech's first report for that state

- SBC filed timely state-by-state retail service quality reports with the FCC, on a quarterly basis. Reports for the first two quarters of 2001 were filed in accordance with the recommendations of the NARUC White Paper. These criteria were

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superceded by Business Rules⁵ adopted by the FCC Staff and the Company on August 13, 2001. By mutual agreement, the FCC Staff and Company decided on certain measurement definitions, with the understanding that some service quality results would not be reported on a retroactive basis in accordance with the Business Rules due to limitations within existing abilities of the Company's systems to retrieve the data needed to recreate certain measures. On October 10, 2001, the Company filed reports reflecting the new business rules for the months of October through December 2000, and on November 13, 2001, the Company provided the FCC with service quality reports for the period January 2000 through June 2001 including restatements for the fourth quarter 2000. Additional restatements were filed with the FCC on January 11, 2002 and February 19, 2002.

- SBC reported on a quarterly basis ARMIS local service quality data required by the FCC separately by state for each of its operating companies in accordance with Table I of ARMIS Report No. 43-05.
- In addition to computer files provided to the FCC Staff, SBC also posted the above service quality data on a publicly accessible SBC Internet web site.
- All routine quarterly reports and web site postings were made no later than 50 days after quarter close or on the next business day when the deadline occurred on a weekend or federal holiday.

25. NRIC Participation

Description and Objectives: Condition 25 requires that SBC continue to participate in the Network Reliability and Interoperability Council ("NRIC").

This condition sunsets on October 23, 2002, 36 months after the effective date of the Merger Conditions (October 23, 1999).

The following addresses SBC's compliance with the requirements of this condition:

- SBC continued its participation in the NRIC and SBC representatives attended NRIC meetings held on February 27, 2001, June 26, 2001, and October 30, 2001. Further, SBC participated in other NRIC-sponsored meetings through its membership in the United States Telephone Association and the National Telecommunications Association. SBC also supported, provided representation to, and participated in NRIC subcommittees 2.A2 (Best Practices-Packet Switching) and 2.B1 (Data Reporting and Analysis for Packet Switching).

⁵ Business Rules refers to the criteria agreed to by the Company and the FCC Staff on August 13, 2001 for reporting additional service quality results. These Business Rules are documented at <https://clec.sbc.com/unrestr/custguide/clecarmis.cfm>.

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Ensuring Compliance with and Enforcement of These Conditions

26. Compliance Program

Description and Objectives: Condition 26 requires SBC to have a corporate compliance officer and to file an annual report that summarizes compliance with these Merger Conditions.

This condition sunsets when SBC has no obligations remaining under the Conditions.

The following addresses SBC's compliance with the requirements of this condition:

- A senior corporate officer served as Compliance Officer throughout 2001.
- On March 15, 2001, the Company filed its annual compliance report accurate to the best of its knowledge and belief at the time it was filed, which detailed its compliance with the Merger Conditions for Report Year 2000. On October 16, 2001, the Company filed with the FCC a supplement to the annual compliance report, which included information on items relevant to the 2000 Report Year which were not identified in the March 15, 2001 Report because they were discovered after that date. The supplement also included corrections of minor errors, none of which had an impact on the Company's compliance with the Merger Conditions.

27. Independent Auditor

Description and Objectives: Condition 27 requires SBC to engage an independent auditor to annually review its compliance with these Merger Conditions. The audit is to provide a thorough and systematic evaluation of SBC's compliance with the Merger Conditions and determine the adequacy of internal controls.

This condition sunsets when the audits discussed in this condition are no longer required.

The following addresses SBC's compliance with the requirements of this condition:

- SBC engaged E&Y to review its compliance with the Merger Conditions for 2001.
- SBC also engaged E&Y to perform an agreed-upon procedures engagement for the 12-month engagement period ended December 31, 2001 regarding the separate Advanced Services affiliate requirements contained in Condition 1 of the Merger Conditions.
- SBC granted the independent auditor access to all books, records, operations, and personnel for the audits.
- On September 4, 2001, SBC filed with the FCC E&Y's Report of Independent Accountants on SBC's Report of Management on Compliance with the Merger Conditions regarding the Company's compliance during the year ended December 31, 2000. Condition 24 was excluded from this audit report. On August 13, 2001, the Commission granted SBC an extension until November 12, 2001 to file the Condition 24 report. The Commission subsequently approved an additional extension

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for the audit report for Condition 24 until December 12, 2001, at which time the Condition 24 audit report was filed with the Commission.

- On September 4, 2001, SBC filed with the FCC the Auditor's Report of Independent Accountants on Applying Agreed-Upon Procedures for 2000 in accordance with the separate Advanced Services affiliate requirements in Condition 1 of the Merger Conditions. On November 1, 2001, SBC filed the Auditor's Supplemental Report of Independent Accountants on Applying Agreed Upon Procedures (Supplemental Report), the filing date of which was approved by the Commission in DA 01-1945, released August 16, 2001. By agreement between the FCC and the Company, the purpose of the Supplemental Report was for the Auditor to obtain representation letters from responsible Company management regarding the fact that Southwestern Bell Communications Services (SBCS) complied with Section 272 requirements for the during the engagement period and therefore the Separate Affiliate requirements of Condition 1, with known exceptions noted.

28. Enforcement

Description and Objectives: Condition 28 states that the enforcement and compliance programs established by these conditions do not abrogate, supersede, limit or otherwise replace the Commission's powers under the Communications Act. The condition also provides for voluntary payment procedures.

This condition sunsets when SBC has no obligations remaining under the Conditions.

The following addresses SBC's compliance with the requirements of this condition:

- As indicated in the response for Condition 7, SBC made voluntary payments to the U.S. Treasury during 2001 related to Carrier-to-Carrier performance measurement requirements.
- The FCC, in its Order on Review, File No. EB-00-1H-0432 released May 29, 2001, affirmed the Enforcement Bureau's finding that SBC failed to report certain performance data in accordance with its published Business Rules adopted in the Carrier-to-Carrier Performance Plan during 1999 and 2000 and affirmed the imposition of an \$88 thousand forfeiture penalty. SBC paid the forfeiture penalty on June 28, 2001.
- The FCC's Enforcement Bureau, in its Order of Forfeiture, File No. EB-00-1H-326a released May 24, 2001, alleged that SBC violated the Commission's rule regarding the timing of the internet posting of notices of premises that have run out of collocation space. On June 25, 2001, SBC filed an Application for Review with the Commission. The FCC, in its Order on Review, released February 25, 2002, affirmed the Enforcement Bureau's finding, but reduced the amount from \$94,500 to \$88,000. SBC's response was pending as of the date this report was filed.
- The FCC's Enforcement Bureau, in its Notice of Apparent Liability for Forfeiture ("NAL"), File No. EB-01-1H-0030, released January 18, 2002 alleged that the Company did not provide shared transport in the Ameritech States under terms and conditions substantially similar to those that it offered in Texas as of August 27,

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1999, in violation of the Merger Order. The Company filed a response with the Commission on March 5, 2002. Resolution of the Commission's action is pending.

29. Sunset

Description and Objectives: Condition 29 generally provides that all Conditions shall cease to be effective, and shall no longer bind SBC in any respect, after the effective date of the Merger Conditions (October 23, 1999). Condition 29 recognizes four principal exceptions to the "MCD plus 36 months" rule: (a) instances where other termination dates are specifically established; (b) Conditions requiring SBC to provide Advanced Services through one or more separate affiliates for a period beyond the MCD plus 36 months; (c) Conditions which become effective or operational after the merger Closing Date; and (d) Conditions whose duration is extended for non-compliance in accordance with Paragraph 69 of the Conditions.

During the Report Period certain aspects of the following Merger Conditions met sunset provisions:

- Condition 3: "Advanced Services Operations Support Systems (OSS)" reached sunset on October 22, 2001 when OSS enhancements were deployed. (with the exception of Connecticut, where deployment is required in 2002) with respect to the required discount of 25 percent from the recurring and nonrecurring charges for unbundled loops used to provide Advanced Services.
- Condition 7: "Carrier-to-Carrier Performance Plan" sunset in 2001 with respect to Kansas and Oklahoma when FCC approved the Kansas/Oklahoma 271 application on January 19, 2001 effective March 7, 2001. The FCC issued a public notice on February 1, 2001 extinguishing the obligation to report performance measures for these states (DA 01-261). In addition, the FCC approved the Arkansas/Missouri 271 application on November 16, 2001, effective November 26, 2001. The FCC issued a public notice on December 13, 2001 extinguishing the obligation to report performance measures for these states (DA 01-2889).
- Condition 14: "Unbundled Loop Discount" sunset with respect to the requirement to offer the discount sunset on November 7, 2001 upon 24 months after commencement of the offering window period in Connecticut, Kansas, Oklahoma, and Texas; and in Arkansas and Missouri on November 26, 2001 concurrent with authorization to provide in-region, interLATA services

30. Effect of Conditions

Description and Objectives: Condition 30 imposes no additional requirements on SBC but states the relationship between state law requirements and the Commission's Merger Conditions. The Condition recognizes that various offerings and initiatives contained within these Merger Conditions may substantially duplicate requirements imposed in connection with the merger under various state laws. Pursuant to Condition 30, the Merger Conditions shall supplement but shall not be cumulative of substantially related Conditions imposed under state law. Where both these merger Conditions and state-

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imposed Conditions grant parties similar rights, parties shall not have the right to invoke the relevant terms of the merger Conditions in a given state if they have already invoked a substantially related Condition imposed on the merger under applicable state law.

The following addresses SBC's compliance with the requirements of this condition:

- This Condition does not impose affirmative obligations on SBC; rather, it states the relationship of the Merger Conditions to state law, and vice versa. SBC followed this guidance in interpreting and applying the Merger Conditions.

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Date: 3-15-02

SBC Communications Inc.

By: M. N. Gilliam

Michael N. Gilliam

Vice President

FCC Corporate Compliance Officer

Sufficiency of Internal Controls for Complying with the Merger Conditions

The Company's controls were sufficient to address the requirements and goals to meet the ILECs' non-discriminatory obligations with respect to the Advanced Services affiliates, promote the deployment of advanced services by competitors, ensure open local markets, improve residential phone service, and ensure compliance and enforcement of these Conditions.

The Corporate Compliance Officer and the MCG provided the Company with a framework for identifying Merger obligations and designing and implementing internal controls to ensure compliance with the Merger Conditions. The MCG maintained a compliance plan, including tracking each requirement of the Merger Conditions that required action on the Company's part and assigned responsibility to an officer of the Company, who as the team leader for that Condition was personally responsible for ensuring full compliance with the Condition in the individual business units. The Company also established a Merger Compliance oversight team comprised of legal counsel and the MCG regulatory staff to provide guidance regarding and prerequisite approval of operations or activities between the Advanced Services affiliates and the ILECs.

As a corporate-wide policy to control against the inadvertent transfer of nonpublic information from the ILECs to Advanced Services affiliates, employees within certain affiliates that provided services for the entire SBC family of companies were siloed into separate groups performing services either on behalf of the ILECs or on behalf of the Advanced Services affiliates.

Each business unit within the Company was responsible for ensuring its internal control structure was sufficient to ensure compliance with the Merger Conditions. Internal controls were monitored by the business units and the MCG through tracking status of compliance activities and informing senior management and the MCG group on the status of compliance with specific requirements created by the Merger Conditions.

In response to instances of non-compliance related to performance measurement reporting, merger-discount billing, and collocation billing, Internet postings and notifications identified through internal analysis or through external audits, the Company improved controls and reinforced training, as appropriate. In particular, each ILEC assigned work groups dedicated to performance measurements and data validation on an on-going basis to improve and ensure the accuracy and completeness of all data and calculations. The Company established procedures to ensure that discounts for UNEs and resale services were properly applied and maintained in its billing systems. The Company increased its oversight of collocation activities, including Internet postings of exhausted premises. The consolidation of various company-wide collocation billing functions into a single service center allowed for improved oversight over the billing process. In addition, the consolidation of collocation service functions allowed for improved oversight over response intervals to CLEC physical collocation applications.

Training

The MCG facilitated training on the Merger Conditions across the Company. The MCG provided live instruction to approximately 16,000 managers through in-person, intranet-based, or phone-in, training sessions. These training sessions emphasized the separate affiliate requirements applicable to the Advanced Services affiliates and the required and prohibited methods of interaction between the ILECs and the Advanced Services affiliates. In addition, the MCG maintained Intranet-based training course and posted various training materials on the Company Intranet site. The MCG also monitored to ensure a training coordinator had been designated for each impacted business unit.

The Advanced Services affiliates were designed and organized to be structurally separate from the ILECs. Separate operating procedures were developed for the Advanced Services affiliates' business activities, and these procedures specifically addressed the restrictions and requirements on interaction with the SBC ILECs, as imposed by the Merger Conditions. Methods and Procedures ("M&P") at the Advanced Services affiliates were designed pursuant to restrictions and requirements of the Merger Conditions. M&P were used as a primary training tool and control to ensure that Advanced Services affiliate employees performed specific business procedures in compliance with the Merger Conditions.

Training at the ILECs addressed key topics such as what services could be provided to ASI, the required terms and conditions for providing services, the protection for proprietary information, and permitted and prohibited activities when performing joint marketing. Managers were provided with training on general merger issues, including merger impacts, dates, conditions, public interest, and goals of the merger, and how to handle inquiries about the merger. The line managers then conducted training with front-line employees on general merger issues to ensure an understanding of how the merger impacted their jobs and how to achieve and maintain compliance. M&P at the ILECs affiliates were also designed pursuant to restrictions and requirements of the Merger Conditions and were used as a primary training tool and control to ensure that ILEC employees performed specific business procedures in compliance with the Merger Conditions.

FCC Merger Conditions - Responsible Officers

<u>Condition</u>	<u>Officer</u>
Promoting Equitable and Efficient Advanced Services Deployment	
1 Separate Affiliate for Advanced Services	
A. SBC Advanced Solutions, Inc. (ASI) and Ameritech Advanced Data Services, Inc. (AADS)	R. Dietz
B. Network Planning and Engineering	C. Rice
C. Network Services	W. Masters
D. Marketing	L. Champion
E. Industry Markets	D. Cole
2 Discounted Surrogate Line Sharing Charges	D. Cole
3 Advanced Services OSS	E. Glotzbach
4 Access to Loop Information for Advanced Services	D. Cole
5 Loop Conditioning Charges and Cost Studies	J. Montford
6 Non-discriminatory Rollout of xDSL Services	R. Dietz
Ensuring Open Local Markets	
7 Carrier-to-Carrier Performance Plan (Incl. Performance Measures)	M. Gilliam
8 Uniform and Enhanced OSS	E. Glotzbach
9 Restructuring OSS Charges	D. Cole
10 OSS Assistance to Qualifying CLECs	D. Cole
11 Collocation Compliance	C. Rice
12 Most-Favored-Nation Provisions (Out-of-Region and In-Region)	D. Cole
13 Multi-State Interconnection and Resale Agreements	D. Cole
14 Carrier-to-Carrier Promotions: Unbundled Loop Discount	D. Cole
15 Carrier-to-Carrier Promotions: Resale Discount	D. Cole
16 Carrier-to-Carrier Promotions: UNE Platform	D. Cole
17 Offering of UNEs	D. Cole
18 Alternative Dispute Resolution through Mediation	D. Cole
19 Shared Transport in Ameritech States	D. Cole
20 Access to Cabling in Multi-Unit Properties	W. Masters
Fostering Out-of-Territory Competitive Entry	
21 Out-of-Territory Competitive Entry (National-Local Strategy)	T. Harden
Improving Residential Phone Service	
22 InterLATA Services Pricing	L. Champion
23 Enhanced Lifeline Plans	J. Montford
24 Additional Service Quality Reporting	W. Masters
25 NRIC Participation	W. Masters
Ensuring Compliance with and Enforcement of These Conditions	
26 Compliance Program	M. Gilliam
27 Independent Auditor	M. Gilliam
28 Enforcement	M. Gilliam
29 Sunset	P. Mancini
30 Effect of Conditions	P. Mancini